MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

DATE: September 24, 2014

TO: Legislative Finance Committee

FROM: Lois Steinbeck, Senior Fiscal Analyst
Scot Conrady, Fiscal Analyst
Cynthia Hollimon, Fiscal Analyst

RE: Medicaid Monitoring Report – Fiscal Year End 2014

MEDICAID MONITORING

The Legislative Finance Committee (LFC) adopted as part of its interim work plan monitoring the Medicaid program administered by the Department of Public Health and Human Services (DPHHS). This report is the fifth in a series that will be completed as part of the work plan. This report reviews fiscal year end data from the State Budgeting, Accounting, and Human Resources System (SABHRS) and compares it to data reviewed by the LFC at its June meeting, original legislative appropriations for Medicaid services, and changes made to that appropriation authority. The report also includes items to watch or consider for FY 2015.

SUMMARY

This report discusses the following points:

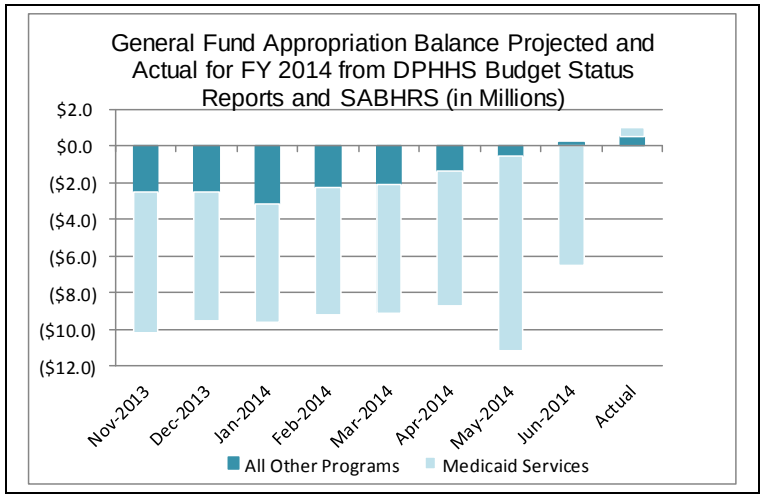
- DPHHS was able to cover all Medicaid services expenditures within FY 2014 appropriation authority
- Final Medicaid general fund expenditures recorded in SABHRS were $7.7 million less than the estimate reviewed at the June LFC meeting
- To provide adequate authority for remaining Medicaid services shortfalls, there were net transfers of $5.1 million in appropriation authority, including $3.1 million of general fund, among Medicaid services and from other DPHHS programs
- About $1.7 million more in Healthy Montana Kids (HMK) state special revenue was used to offset general fund Medicaid state match for services for children
- There is $14.7 million in state special and federal revenue available for other uses or to offset general fund expenditures in FY 2015 including:
  - $9.0 million in federal Children's Health Insurance Program Reauthorization Act (CHIPRA) bonus funds
  - $3.7 million in HMK state special revenue
  - $2.0 million in SB 410 state special revenue appropriation authority

NO GENERAL FUND SHORTFALL IN FY 2014

Throughout FY 2014, DPHHS had projected that general fund expenditures would exceed FY 2014 general fund appropriations. The estimated agency wide shortfall ranged from a high of

$11.2 million in May to low of $6.3 million in June. However, a shortfall did not occur and the department reverted $1.0 million general fund from HB 2 and HB 13 appropriations.

The adjacent graph shows the estimated shortfall from each of the FY 2014 budget status reports (BSR) prepared by DPHHS and the fiscal year end reversion data drawn from SABHRS. Medicaid services costs comprised the majority of the shortfall in each projection.



The LFC met prior to receipt of the June DPHHS budget status report, which estimated a $6.3 million shortfall overall. The LFC discussed the May budget status report, which estimated a much higher overrun of $11.2 million. In its June report, LFD staff noted that the shortfall was overstated by $2.3 million and that there was adequate state special revenue and federal authority to offset general fund expenditures and cover the projected FY 2014 shortfall. DPHHS incorporated some of those general fund offsets between the May and June budget status reports, lowering the projected shortfall. The link to the report discussed at the June LFC meeting is:
http://leg.mt.gov/content/Publications/fiscal/interim/2014_financemty_June/Medicaid%20Monitoring.pdf

Fiscal Year End Medicaid Expenditures Compared to Budget Status Report Reviewed by LFC

The adjacent table compares FY 2014 year end Medicaid services expenditures to the estimate discussed at the June LFC meeting. Fiscal year end expenditures recorded in the state accounting system were $24.4 million lower than estimated in the DPHHS May budget status report.

General fund expenditures were $7.7 million lower than estimated in May. In total, the difference is 2.2% for all funds and a 3.0% difference in general fund. Reasons for the lower year end expenditures are discussed on page 5.

State Special Revenue Offset

General fund expenditures were lower by $1.7 million because DPHHS used $1.7 million of HMK state special revenue. The HMK funds were used as Medicaid match for services provided to children in families with incomes below 109% of the federal poverty level. The expenditure of HMK state special revenue directly offset general fund.

Medicaid Services - FY 2014 Year End Expenditures Compared to DPHHS Estimates in May Budget Status Report

Division/Fund/ Grand Total	May BSR FY 2014 Estimate[1]	Final FY 2014 Expenditures[2]	Final Expenditures (Over) Under May BSR	Balance as a % of May Est
Health Resources[3]				
General Fund	$131,753,330	$129,313,547	$2,439,783	1.9%
State Special	45,561,722	45,419,915	141,807	0.3%
Federal	371,599,412	368,061,808	3,537,604	1.0%
Subtotal	548,914,464	542,795,270	6,119,194	1.1%
Senior and Long Term Care[4]				
General Fund	58,039,667	54,408,971	3,630,696	6.3%
State Special	28,504,965	27,257,208	1,247,757	4.4%
Federal	178,283,793	166,723,461	11,560,332	6.5%
Subtotal	264,828,425	248,389,640	16,438,785	6.2%
Developmental Services Division				
General Fund	58,521,893	56,934,836	1,587,057	2.7%
State Special	6,040,146	6,040,146	0	0.0%
Federal	162,233,556	160,353,794	1,879,762	1.2%
Subtotal	226,795,595	223,328,776	3,466,819	1.5%
Addictive and Mental Disorders				
General Fund	11,004,105	10,915,426	88,679	0.8%
State Special	7,979,544	8,211,376	(231,832)	-2.9%
Federal	39,562,375	41,046,225	(1,483,850)	-3.8%
Subtotal	58,546,024	60,173,027	(1,627,003)	-2.8%
Grand Total All Medicaid Services				
General Fund	259,318,995	251,572,780	7,746,215	3.0%
State Special	88,086,377	86,928,646	1,157,731	1.3%
Federal	751,679,136	736,185,288	15,493,848	2.1%
Grand Total	$1,099,084,508	$1,074,686,713	$24,397,795	2.2%

1. These estimates are drawn from the May 2014 BSR prepared by DPHHS and reviewed at the June 2014 LFC meeting.
2. Expenditure data was drawn from SABHRS and compiled by LFD staff.
3. About $1.7 million of the additional HMK state special revenue was used to offset general fund Medicaid match.
4. The LFD staff report to the June LFC meeting expected a $2.3 million balance in general fund or $1.3 million less than actual expenditures.

Fiscal Year End Expenditures Compared to Original Legislative Appropriation

The table on the following page shows DPHHS Medicaid fiscal year end expenditures by division compared to appropriations approved by the 2013 Legislature and to changes in appropriation authority authorized by the executive throughout the year.

In total, fiscal year end expenditures for Medicaid services for all fund types were $17.1 million lower than the original legislative appropriation. However, fiscal year end expenditures for general fund exceeded the original legislative appropriation by $2.8 million. Original appropriations were augmented by a net of $5.6 million in authority transferred from other DPHHS programs, including $3.1 million of general fund.

Final reversions were $22.7 million in total authority. General fund reversions were $0.2 million from Medicaid services appropriations.

Addictive and Mental Disorders Division expenditures for Medicaid services were within $0.5 million of the original appropriation or about 1% different. On the other hand, Senior and Long

Monitoring Medicaid Services - FY 2014 Original Legislative Appropriations Compared to Year End Expenditures, Appropriation Changes, and Remaining Authority

Division/Fund/ Grand Total	FY 2014 Legislative Appropriation[1]	FY 2014 End Expenditures[2]	Final Expenditures (Over) Under Legislative Appropriation	Balance as a Percent of Legis. Approp.	Changes in Appropriation Authority[3]	Remaining Appropriation (Over) Under Legis. Approp.	Percent of Legis. Approp.
Health Resources[4]							
General Fund	$121,927,937	$129,313,547	($7,385,610)	-6.1%	$7,417,263	$31,653	0.0%
State Special	44,601,408	45,419,915	(818,507)	-1.8%	818,516	9	0.0%
Federal	362,695,552	368,061,808	(5,366,256)	-1.5%	8,000,000	2,633,744	0.7%
Subtotal	529,224,897	542,795,270	(13,570,373)	-2.6%	16,235,779	2,665,406	0.5%
Senior and Long Term Care							
General Fund	57,498,788	54,408,971	3,089,817	5.4%	(2,990,000)	99,817	0.2%
State Special	30,074,850	27,257,208	2,817,642	9.4%	279,000	3,096,642	10.3%
Federal	181,933,711	166,723,461	15,210,250	8.4%	(6,588,696)	8,621,554	4.7%
Subtotal	269,507,349	248,389,640	21,117,709	7.8%	(9,299,696)	11,818,013	4.4%
Developmental Services Division							
General Fund	58,653,293	56,934,836	1,718,457	2.9%	(1,627,503)	90,954	0.2%
State Special	6,040,146	6,040,146	0	0.0%	0	0	0.0%
Federal	168,667,539	160,353,794	8,313,745	4.9%	(629,835)	7,683,910	4.6%
Subtotal	233,360,978	223,328,776	10,032,202	4.3%	(2,257,338)	7,774,864	3.3%
Addictive and Mental Disorders							
General Fund	10,658,340	10,915,426	(257,086)	-2.4%	257,112	26	0.0%
State Special	8,717,204	8,211,376	505,828	5.8%	(279,000)	226,828	2.6%
Federal	40,310,010	41,046,225	(736,215)	-1.8%	977,000	240,786	0.6%
Subtotal	59,685,554	60,173,027	(487,473)	-0.8%	955,112	467,639	0.8%
Grand Total All Medicaid Services							
General Fund	248,738,358	251,572,780	(2,834,422)	-1.1%	3,056,872	222,450	0.1%
State Special	89,433,608	86,928,646	2,504,962	2.8%	818,516	3,323,478	3.7%
Federal	753,606,812	736,185,288	17,421,524	2.3%	1,758,469	19,179,993	2.5%
Grand Total All Funds	$1,091,778,778	$1,074,686,713	$17,092,065	1.6%	$5,633,857	$22,725,922	2.1%
Transfer of Authority Between All Programs[5]					$5,114,491		
SB 410 Limit					(60,000,000)		

1. Includes HB 2. Any funds allocated from appropriations in SB 410 will be listed separately as a source of state special revenue. The December Medicaid monitoring report showed an additional $5.2 million in federal authority approriated in HB 4 (budget amendment bill) for a residential inpatient psychiatric treatment grant for children's mental health. This authority may not be used for any other purpose. In order to clarify the Medicaid status report going forward, the LFD removed this amount from the DSD federal appropriation.

2. Year end expenditures are drawn from SABHRS.

3. Changes in appropriation authority can include: reorganizations, transfers of authority among Medicaid programs, transfers of authority to other DPHHS programs, reallocations of authority between program functions within a division and additions due to budget amendments. SB 410 limits transfers of Medicaid services appropriation authority to $60.0 million total funds.

4. HRD received an administrative appropriation of $519,366 state special revenue transferred from the University of Montana to partially fund a medical education program.

5. DPHHS transferred $5.1 million of authority among Medicaid services appropriations. About $0.5 million of appropriation changes were due to an administrative appropriation of state special revenue from the university system to fund a graduate medical education program.

Term Care Division (SLTC) had the highest variance at 8% lower than the original appropriation (discussed below).

General Fund Changes

DPHHS had sufficient general fund within agency wide FY 2014 legislative appropriations to cover shortfalls that occurred in some Medicaid services. Medicaid services administered by the Health Resources Division (HRD) had the highest over expenditure, exceeding the original amount appropriated by the legislature by $13.6 million total funds, including $7.4 million general fund. Major differences between final costs and the original general fund legislative appropriation and the two primary reasons that costs were higher than anticipated during the 2013 legislative session are:

- $6.1 million in hospital and clinic costs due to higher Medicaid enrollment, a increase in the number of services, and higher reimbursements due to more complex patient acuity
- $2.8 million in acute services and pharmacy costs due in part to higher than anticipated enrollments in conjunction with implementation of the Affordable Care Act

General fund expenditure increases in these areas were partially offset by lower expenditures in other services administered by HRD. Physician services had the most significant difference and general fund expenditures in this area were lower because DPHHS used additional HMK state special revenue as state match in place of general fund. About $7.4 million general fund was transferred from other Medicaid services and DPHHS programs to make up the balance of the shortfall.

SLTC and Developmental Services Division (DSD) transferred $4.8 million of general fund to HRD. SLTC had excess general fund due to lower:

- Community First Choice expenditures - $2.8 million
  - Program implementation was delayed while program rules and operating procedures were developed so that enrollees accessed fewer services available under the program
- Nursing home services - $0.8 million
  - State special revenue offset some general fund costs due to higher lien and estate recoveries
  - Reimbursements for direct care worker wage increases were slightly lower

DSD had lower expenditures in Medicaid waiver services provided to developmentally disabled persons because:

- Expected transfers out of the Montana Developmental Center did not occur as projected in part due to available community resources (13 transfers compared to 24 that were anticipated)
- Federal guidance required that DPPHS change the way it selects persons to be placed in the developmental disability waiver, temporarily delaying new enrollments until the selection process was revised

Federal and State Special Revenue Adequate for FY 2014

There was $17.4 million of federal Medicaid authority and $2.5 million of state special revenue (SSR) authority in excess of original FY 2014 legislative appropriations due to lower:

- Intergovernmental transfers (IGT) of county funds to provide a match for additional nursing home reimbursements - $5.6 million federal authority and $2.8 million SSR
- Indian Health Services (I.H.S) reimbursements - $13.0 million federal authority
- Developmentally disabled waiver services - $2.8 million federal authority

- Community First Choice services - $6.5 million federal authority
- Money Follows the Person administered by SLTC - $3.6 million federal authority
- Home based services administered by SLTC - $2.0 million federal authority

Not all of the remaining authority from under expenditures was reverted at close of FY 2014. Some of the excess authority was used to cover the federal Medicaid cost overruns in hospital services, acute care, and pharmacy costs. In addition, excess authority from some non-Medicaid appropriations was transferred to augment Medicaid services appropriations.

ITEMS OF NOTE FOR FY 2015

There will be about $14.7 million in state special and federal funds available to offset general fund costs in FY 2015 or to be used in other ways. The fund sources were reviewed in the Medicaid monitoring report discussed at the June LFC meeting. Since then there have been two changes:

- DPHHS used $2.2 million of the total amount available in FY 2014
- Available HMK SSR is higher than anticipated because receipts were above those projected in SJ 2 and there was cash remaining at fiscal year end

The adjacent table shows each source of federal and state special revenue that was available to offset general fund cost overruns in FY 2014, the amount used by DPHHS, and the balance remaining that can be used in FY 2015.

As noted previously, DPHHS used $1.7 million of HMK state special revenue to offset general fund state Medicaid match for physician services.

Extra Funds Available in FY 2015

Source of Funds	Millions
Additional 2013 CHIPRA Bonus Grant	$2.5
2014 CHIPRA Bonus Grant	7.0
Additional HMK Cash	5.4
SB 410 Appropriation to DPHHS	2.0
Subtotal Extra Funds	16.9
Amount Used in FY 2014 by DPHHS	
HMK State Special Revenue	(1.7)
CHIPRA Bonus	(0.5)
Subtotal Extra Funds Used	(2.2)
Extra Funds Available in FY 2015	$14.7

Use of Children's Health Insurance Program Reauthorization Act (CHIPRA) Bonus

DPHHS used $0.5 million of the federal CHIPRA bonus funds in place of general fund at the Montana Developmental Center. The federal funds paid for overtime and holidays worked for state facility staff. The general fund authority was transferred to cover Medicaid services shortfalls.

Some CHIPRA Authority Used in Agency Budget Request

About $0.8 million in the federal CHIPRA authority is included in the 2017 biennium budget request. The agency request continues CHIPRA funding of overtime pay at the Montana Developmental Center.

LIMITS ON TRANSFERS OF MEDICAID APPROPRIATION AUTHORITY

SB 410 limits transfer of Medicaid services appropriation authority to $60.0 million over the 2015 biennium. Net transfers of authority in FY 2014 were $5.1 million. This amount is reflected in the table on page 4.

MEDICAID ACCRUAL

DPHHS has not yet paid all FY 2014 Medicaid services costs. There is an accrual of $118.6 million total funds, including $30.1 million general fund to pay for services that have been provided, but not yet billed. With some limited exceptions providers have one year from the date of service to submit a clean, payable claim.[1] The following table shows the Medicaid services accrual for FY 2014 by division.

FY 2014 Accrual for Medicaid Services by Division and Major Service

Division	General Fund	State Special	Federal Funds	Total	% of Ttl
Health Resources	$18,608,013	$2,186,299	$50,741,992	$71,536,304	60.3%
Senior and Long Term Care	7,012,239	2,177,845	18,096,671	27,286,755	23.0%
Developmental Disabilities	3,111,290	0	8,671,610	11,782,900	9.9%
Addictive and Mental Disorders	1,367,502	1,002,022	5,609,334	7,978,858	6.7%
Total Accrual	$30,099,044	$5,366,167	$83,119,608	$118,584,818	100.0%
Percent of Total	25.4%	4.5%	70.1%	100.0%	

The accrual is about 11% of total Medicaid expenditures recorded at fiscal year end, but 12% of the total general fund Medicaid cost as shown in the table on page 4. LFD staff will monitor Medicaid accrual balances to determine whether final expenditures are over or under the accrual.

OTHER POTENTIAL EXPENDITURE IMPACTS

As discussed in earlier Medicaid monitoring reports, there are potential risks that could raise Medicaid costs in FY 2015:

- Addition of a new service - the patient centered medical home model of care (PCMH)
- Increased Medicaid enrollment through the federal health insurance marketplace

Patient Centered Medical Home (PCMH)

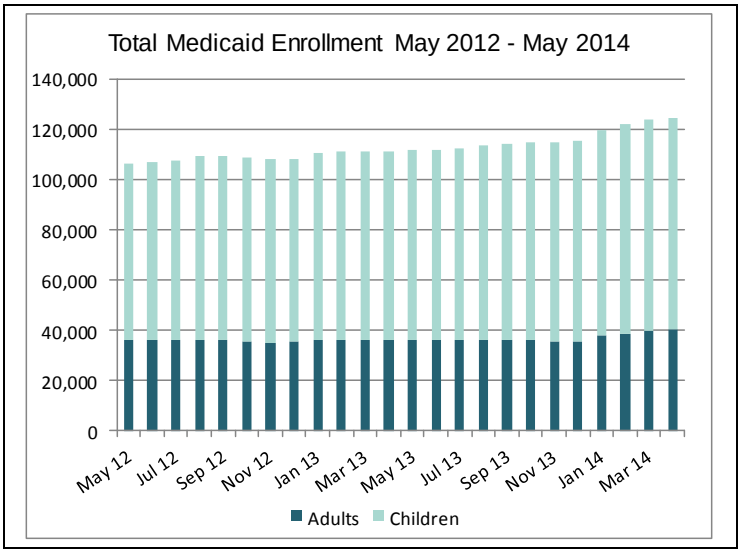
The Medicaid monitoring report discussed at the March LFC meeting included a discussion of the addition of the PCMH service as authorized by SB 84 passed by the 2013 Legislature. DPHHS is drafting rules to implement a pilot project with an estimated start date of November 1. DPHHS will select 2 to 6 providers to participate and each Medicaid enrollee served by those providers will be enrolled in the PCMH program. Participants can opt out of PCMH.

Each participating provider will receive a payment each month for each Medicaid enrollee in its practice. The draft proposal establishes three rates based on patient acuity and certain program requirements. The lowest rate is for services, including preventive care, provided to a healthy adult or child. The second tier reimbursement would be for a Medicaid enrollee with one chronic disease and the highest reimbursement would be for a member with two chronic diseases. DPHHS is establishing a specific list of medical conditions that defines the chronic diseases tied to reimbursement rates and will provide the rates once they are final.

[1] An example of an exception to the one year limit would be when, in some circumstances, Medicaid eligibility determination in the disabled category can take more than one year to establish.

Medicaid Enrollment Increases

The adjacent graph shows Medicaid enrollment changes from May 2012 through May 2014. Although enrollment grew over the last 24 months, the most noticeable change occurred starting in January 2014, when enrollment through the federal health insurance marketplace became effective. The change measured from January to May is about 9,400 persons. In comparison to the previous year, January to May 2013, Medicaid enrollment declined by about 2,900 persons. Most of the new enrollees are children (4,959) and low-income parents (about 4,440)[2].



Medicaid Monitoring Next Steps

The LFC will hear the first and only report for FY 2015 estimated costs and appropriations for Medicaid services at its December meeting. LFD staff will continue to research issues related to Medicaid expenditures and funds available to lower general fund expenditures and include findings in its analysis of the executive budget. However, the LFC input on these issues will be limited to the September and December meetings.

LFC Options

The LFC can consider several options related to funds available in FY 2015 that can be used to offset general fund costs or to spend on other activities and whether it wishes to discuss with DPHHS the decision as to how excess SSR and federal funds are spent. For instance, if the entire $14.7 million in SSR and federal funds were used to lower general fund expenditures from HB 2 appropriations, the general fund ending balance would be higher heading into the 2017 biennium.

Options for either the September or December meeting:

- Request that DPHHS discuss with the LFC whether it plans to spend these funds prior to the convening of the 2015 Legislature:
  - Will DPHHS use SB 410 appropriations and if so how much?
  - Will DPHHS apply CHIPRA bonus funds to current general fund expenditures and lower general fund expenditures? If so, how much will be used and in what way?
  - Will DPHHS use excess HMK state special revenue to offset general fund Medicaid costs for low income children in FY 2015?

[2] The number of adults determined eligible in the aged or disabled categories increased slightly over that period.